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Review of the efficiency of the administrative and financial functioning of the United Nations

Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Management audit of the conference centres at the Economic Commission for Africa and the Economic and Social Commission for Asia and the Pacific

Note by the Secretary-General

1. Pursuant to General Assembly resolution 48/218 B of 29 July 1994, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services, on the management audit of conference centres at the Economic Commission for Africa and the Economic and Social Commission for Asia and the Pacific.

2. The Secretary-General takes note of the findings and concurs with its recommendations.

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Summary

The new Conference Centre of the Economic and Social Commission for Asia and the Pacific (ESCAP) at Bangkok was opened in early 1993 and the Economic Commission for Africa (ECA) completed its new facility at Addis Ababa more than three years later. Both conference facilities were designed to satisfy the needs of the two regional commissions into the twenty-first century. The audit conducted by the Office of Internal Oversight Services between June and November 1998 sought to: (a) review usage levels; (b) identify obstacles to increasing rates of utilization and cost recovery; and (c) recommend improvements to current operations and administration.

Results in brief

The Office of Internal Oversight Services believes that the decision to construct two facilities of this magnitude, at a combined cost of $161.7 million, was flawed. The physical capacity requirements were vastly over-estimated and the ongoing financial implications for the Organization were not properly assessed. To date, the proper use and management of the two centres has not been a matter of priority for United Nations Headquarters, despite the increasing financial burden that the centres impose on the Organization. The management of ECA and of ESCAP have been left to manage the facilities in isolation, as an adjunct to their substantive work programmes, with little operational guidance or support.

The current estimated annual operating costs for the centres are $1.16 million for ECA and $1.53 million for ESCAP. Revenue from external users covers no more than one eighth of either Centre's annual operating costs. In the next five years, both facilities will require still more resources, as large-scale capital maintenance and replacement expenditure becomes necessary.

At the time of the audit, the five major meeting rooms at both centres were empty between 60 and 85 per cent of the time. The Centre at Bangkok has more idle capacity than the ECA Centre, however, ECA allowed some use of its Centre at no charge, favourably influencing usage rates. The ECA system of debt recovery from external users was also inadequate. Secretariat offices and common system agencies rarely selected these two facilities for large conferences and meetings.

Neither Centre was established as a legitimate revenue-producing operation for the Organization, and no resources were earmarked for the marketing and promotion of the centres within or outside the United Nations system. The ECA secretariat has been more proactive by appointing a professional Centre manager, devising operating plans and negotiating informal partnerships. The ESCAP secretariat has also undertaken several innovations as a result of the audit, such as redesigning its Centre's fee structure and dining options to make them more user-friendly and exploring the possibility of converting the fixed seating in two conference rooms into flexible configurations to enable multi-purpose usage.

Recommendations

The Office of Internal Oversight Services believes that enhancing these centres will require creativity, vision and a departure from traditional approaches. Individual initiatives will have little impact if they are not taken within the framework of a comprehensive operating strategy. While the senior management at both commissions should take the lead in promoting their centres, the support and policy guidance of the General Assembly and different Secretariat offices at Headquarters will be needed for defining the extent to which the activities of the centres can be commercialized.

The Office of Internal Oversight Services recommends that:

(a) The Executive Secretary of ESCAP should develop a comprehensive proposal to the General Assembly for the management and promotion of the Centre at Bangkok, comprising a cost-benefit and market analysis, a detailed cost plan and a discussion of options, which might include outsourcing;

(b) The new Conference Centre Chief at ECA should finalize a marketing cost plan and determine the feasibility of implementing additional service and facility enhancements;

(c) The executive secretaries of the two commissions, in conjunction with the Department of General Assembly Affairs and Conference Services of the United Nations Secretariat, should formulate a plan for using the two centres for major United Nations events and meetings.

Other recommendations dealing with management and customer service improvements were also made during the audit. Both commissions have since addressed most of those recommendations. Specifically, the ECA secretariat has set up the Business Centre within the conference facility and is in the process of developing the Technology Centre for Africa which will include both permanent and temporary exhibitions and a training centre, all of which are expected to greatly enhance usage of the Conference Centre. The ECA secretariat is also working to streamline financial procedures and controls. The ESCAP secretariat has initiated discussions to promote the Centre by means of increased activities and expanded sales outlets.

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I. Introduction

1. By its resolution 39/236 of 18 December 1984, the General Assembly approved, in principle, the construction of two conference centres, at Addis Ababa and at Bangkok. The centres were built to satisfy the need for conference facilities in two of the Organization's regional commissions: the Economic Commission for Africa (ECA) and the Economic and Social Commission for Asia and the Pacific (ESCAP). The facility at Bangkok was completed in early 1993, at a final construction cost of $46.5 million. The ECA Centre was completed in 1996, at a cost of $115.2 million. Both centres were designed to accommodate the conference needs of the commissions well into the twenty-first century. The current estimated annual operating costs are $1.16 million for ECA and $1.53 million for ESCAP.

2. The audit by the Office of Internal Oversight Services sought to:

(a) Assess and compare current usage levels for both conference centres;

(b) Identify possibilities for cost containment or recovery and revenue earning potential;

(c) Compare operating practices between the ECA and ESCAP centres and establish a benchmark with other common system facilities;

(d) Assist in resolving policy issues that currently prevent optimal usage of the facilities at the centres.

3. A draft of the audit report was made available to responsible officials at ECA and ESCAP, and to representatives of the Office of Legal Affairs, Department of General Assembly Affairs and Conference Services, and Commercial Activities Service and Programme Planning, Budget and Accounts Division of the Department of Management at United Nations Headquarters. The secretariats of ECA and ESCAP have also responded to the recommendations contained in the final audit report dated 25 June 1999. All comments have been taken into account and those included are identified by the use of italics.

II. Absence of integrated, strategic management of the United Nations conference centres at Addis Ababa and Bangkok

4. To date, ensuring the proper use and management of the two conference centres has not been a priority for United Nations Headquarters, despite the significant financial outlay for their construction and ongoing operation. The management of ECA and ESCAP received little guidance and support from Headquarters in managing these operations in addition to their regular programme of work.

A. Excess capacity and limited usage

5. The original needs assessments and feasibility analyses for both centres were based on flawed assumptions and questionable methodologies. At ESCAP, justification for the proposal was based on a forecast that the five main conference rooms would be used for approximately 122 meeting weeks per annum, translating to 610 days, assuming a five-day week. In 1997, the five principal rooms were used for only 165 days, or less than one third of the level foreseen in 1984. Factors such as the development of competing facility sites in neighbouring countries and, more recently, the downturn in Asian economic growth, have affected the size and frequency of international conferences held at Bangkok.

6. Precise forecasts for ECA were not prepared. Actual data from 1983, showing 386 ECA meeting days for that year, were used to justify the construction of the Centre. The Advisory Committee on Administrative and Budgetary Questions endorsed a proposal that the Centre's design should allow for as much economical expansion as possible during the life of the building, and also discussed the possibility of having a facility which could handle the future convening of a major United Nations conference in Addis Ababa.

7. For the first 10 months of 1998, the Office of Internal Oversight Services calculated that ECA, combined with all external parties, used the five largest conference rooms for a total of only 261 days, or 22 per cent of the available time. These figures do not even match actual usage levels of 15 years earlier. The Office recognizes that unforeseen political and economic developments have affected regional prosperity and the competitive environment, especially in the second half of 1998.

8. The physical capacity of the two centres far exceeds the level of substantive operations that they were designed to service. The major lesson learned is clear: the United Nations Secretariat must ensure that any future decisions to commit funds to construction projects are predicated on thorough, verifiable assessments of needs and more realistic usage forecasts. The designs of facilities should match the needs they are intended to satisfy.

B. Insufficient resources and verifiable operating cost plans

9. Centres as large as those at ECA and ESCAP need staff and resources to adequately support them. A comprehensive analysis to determine the appropriate level of ongoing financing and support for each Centre has, however, never been performed. The ongoing cost implications in terms of staffing, conference servicing, utilities, maintenance and major capital replacement were not properly calculated either at the time of construction or since.

10. In 1993, the Executive Secretary of ESCAP requested posts for one Electrical Engineer at the P-3 level, one Marketing Officer at the P-4 level, one administrative assistant and six local level posts to deal with the Centre's technical aspects. An additional 13 local staff for the operation of the whole United Nations Building complex, including the Conference Centre, were also requested. In the same request, the Executive Secretary estimated that a capital investment of $400,000 would be necessary to establish a range of commercial activities within the Centre.

11. Only 10 of the 13 local level posts were approved for the biennium 1994-1995 but, as indicated, these positions were not intended to support exclusively the operations of the Conference Centre. In addition, two temporary Professional posts dedicated to coordinating and overseeing the construction of the facility were terminated as planned at the end of 1994. The ESCAP secretariat has since relied on existing Conference Services staff and Buildings Services units for assistance, and has outsourced many of the security, technical, maintenance and conference-servicing functions. These arrangements have sufficed, largely because the Centre, since its completion, has remained underutilized. ESCAP is not, however, currently staffed to support any sizeable increase in the utilization of the Centre, and does not have any resources dedicated to marketing and promoting the facility.

12. Any decision to provide additional resources should be predicated on the benefits foreseen from such expenditure, either in terms of additional usage or revenue-earning potential. The Office of Internal Oversight Services is not convinced that the original request of ESCAP for resources was based on verifiable projections and forecasts of usage.

13. Prior to 1999, just two General Service staff were assigned to the ECA Centre, and no resources had been earmarked for the professional marketing and promotion of the facility, either in-house or externally. The Executive Secretary of ECA, as part of the recent restructuring efforts, designated one P-5 position as Chief of the Conference Centre. Two other Professional positions were earmarked in 1998 for maintenance and building management at the Centre. Unfortunately, recruitment for these positions was unduly delayed, with the Chief reporting for duty only in February 1999, while the other positions remain unfilled.

C. Facilities not used for major United Nations meetings

14. The ECA and ESCAP centres are the two newest facilities within the United Nations system most suitable for holding large-scale events but are almost never used for that purpose. The central body for coordinating meetings of intergovernmental and expert bodies within the United Nations Secretariat virtually ignores Addis Ababa and Bangkok as potential locations. The calendar of United Nations conferences and meetings for the last half of 1998 referred only to one meeting of the Organization's subsidiary bodies being held at Bangkok. The calendar for January 1999 showed that no meetings of the expert bodies in the economic, social and related fields, external to ECA, were scheduled to be held at Addis Ababa. In contrast, conference facilities in New York, Geneva and Vienna were to be repeatedly utilized for meetings during that month.

15. The General Assembly, in its resolution 40/243 of 18 December 1985, directed United Nations offices and agencies to meet at their respective headquarters. Governments issuing invitations to hold sessions away from headquarters were required to bear the additional costs involved. In addition, in the proposed programme budget for the biennium 1984-1985, it was stipulated that conference-servicing arrangements for events held away from headquarters remained the responsibility of the Department of Conference Services in New York in the case of ESCAP, and the United Nations Office at Geneva for meetings held in Africa. The scarcity of resources allocated centrally for servicing conferences and meetings, combined with the above-mentioned resolution which predates the existence of the two centres, significantly limited the choice of venues outside New York and Geneva.

16. Responsibility for leveraging the surplus capacity of the centres to benefit the United Nations rests not only with ECA and ESCAP. United Nations Headquarters should also play a role in developing a strategy for improvement throughout the Organization. New and creative approaches are needed if ECA and ESCAP are to get a fair share of the "Organization's business". A decision to hold more United Nations meetings at these two locations may result in

additional conference-servicing costs. Expenditure forecasts need to be compared with the costs currently sustained by the commissions in supporting and maintaining these facilities. The possibility of securing extrabudgetary funding commitments, for the specific purpose of holding conferences away from the traditional locations, should also be pursued at Headquarters.

17. The General Assembly has been reviewing the low utilization of the Organization's conference facilities at Nairobi. The Office of Internal Oversight Services believes that this review should be broadened to include the facilities at Bangkok and Addis Ababa. It further believes that holding more United Nations conferences and events at Bangkok and Addis Ababa would improve utilization rates and promote the work of the two regional commissions throughout the common system. The Organization could also demonstrate its commitment to the economic development of these two critical regions by attracting outside business and utilizing its own facilities.

D. Inadequate operational guidance

Economic and Social Commission for Asia and the Pacific

18. In 1993, shortly after the completion of the Bangkok Centre, the former Executive Secretary of ESCAP sought guidance from United Nations Headquarters on a proposal to establish several revenue-generating activities within the Centre. Approval for the establishment of these activities and for funding the associated start-up costs was not, however, forthcoming. In September 1994, the Executive Secretary reiterated his request in a memorandum to the Under-Secretary-General for Administration and Management. He stated that, despite a higher-than-expected usage of the Centre for meetings, the facility was considerably underutilized compared to its design potential in terms of services to the public. By 1996, it had become clear to the ESCAP management that, to optimize the efficiency and benefit of the Centre, its utilization would have to be widened beyond purely United Nations meetings, conferences and activities.

19. There was no response to any of the repeated requests of ESCAP for guidance and its efforts to resolve this matter. Finally, in November 1997, the present Executive Secretary requested the Office of Internal Oversight Services to conduct an audit and provide advice on the modalities and feasibility of setting up public facilities and services at Bangkok.

20. Administrative instruction ST/AI/416 of 26 April 1996 specifies guidelines for the use of United Nations premises for meetings, conferences and public events. Further, the Legal Counsel, in a 1992 memorandum addressed to the Executive Secretary of ESCAP, confirmed that the Centre could be used by non-United Nations bodies but only when such meetings were consistent with the purposes and principles of the United Nations and were of a non-commercial nature. Further, the Legal Counsel advised, while requests for use by United Nations missions or events sponsored by missions would seem unobjectionable, use by non-governmental organizations was subject to the condition that the activities or briefings were for the sole purpose of promoting an understanding of United Nations aims and activities. The use of United Nations premises, the Legal Counsel continued, for an event of a primarily commercial nature would be objectionable from a legal standpoint. The Office of Legal Affairs reiterated this position in subsequent communications during the audit.

21. The secretariat of ESCAP has been unofficially earning revenue from a garage operation, a catering facility and use of the Centre for meetings by external clients since 1993. Pending advice from Headquarters, a fund-in-trust was established for recording the associated transactions. The Commission had temporarily set aside $400,000 of these funds for the establishment of new public activities, but has since remitted them to Headquarters, based on the advice of the Board of Auditors.

22. The proposal made by the Executive Secretary of ESCAP in 1993 outlined several income-generating activities, including a guided tour service, a United Nations book and gift shop and fee-paying exhibitions. The overall operating philosophy was that these operations would be self-sustaining. Experience at other duty stations, however, indicates that revenue from commercial activities is frequently insufficient to cover costs. This is particularly true regarding the sale of United Nations publications and providing visitors' services in the Secretariat, primarily because of the high fixed-cost component of salaries and common staff expenses.

23. Establishing a gift shop at the Conference Centre was also included in an updated proposal. A gift shop at ESCAP could never achieve the sales level of the shop at United Nations Headquarters, nevertheless, this activity would make the Centre more attractive to visitors and fulfil public education and information dissemination objectives.

24. Another initiative was to make the Centre available to fee-paying exhibitors. The Office of Legal Affairs was, however, concerned that this activity appeared to be

primarily commercial in nature and therefore inappropriate. Cultural events, which have fund-raising objectives, appear to be less well-defined from a legal perspective. At Headquarters, such events are approved on a case-by-case basis. The Commercial Activities Service, in consultation with the Office of Legal Affairs, needs to provide strict policy guidance to ensure that the position of ESCAP is consistent with that of other United Nations offices. Pure fund-raising events do not appear to be within the basic mandate of the Organization. There appear, however, to be precedents for using United Nations premises to raise funds in conjunction with the promotion of the Organization's objectives. The Office of Internal Oversight Services believes that this concept should be further investigated.

25. Other initial proposals included opening the catering operation to a wider clientele (for business lunches), establishing a press and delegates bar, and marketing the Centre as a venue for educational and social functions. Once again, legal parameters on the extent to which the premises can be opened to a wider clientele, need to be considered; however, the Office of Internal Oversight Services notes that press bars do exist at other duty stations and that the restaurant at Headquarters is advertised in commercial publications as a lunch-time venue for the public at large. *With respect to the latter, the Office of Legal Affairs has advised that such usage has been approved, since it is incidental to the operation of the facilities.*

26. If the Organization elects to establish any of the above-mentioned commercial activities at ESCAP, the Office of Internal Oversight Services believes that a different operating modality is needed to achieve self-sustainability, with greater reliance on outsourced contractual services rather than on additional United Nations personnel. In fact, the basic premise of an updated proposal, prepared by ESCAP during the audit, is provision of services by external contractors. There was no legal objection, in principle, to outsourcing activities such as a guided tour operation, a United Nations book/gift shop or a press bar, as long as questions relating to, *inter alia*, marketing and promotion, insurance and taxation were resolved and formalized in a contract.

Economic Commission for Africa

27. The Centre at Addis Ababa has been fully operational only since 1997. Officials at ECA, however, also cited insufficient guidance as a major impediment to the management and development of the Centre.

28. The Officer-in-Charge of the Conference and General Services Division at ECA stated that the legal question of using the Centre for commercial functions is not as pertinent at Addis Ababa since there are few such requests made. The majority of external users have aims and objectives consistent with the mission of ECA, especially since one of its primary goals is to promote the development of commerce and entrepreneurship within the region. The ECA secretariat, however, lacked clear policy guidance on the usage of the Centre, in particular regarding which users had to pay for using the facility and when reduced rates or free usage might be appropriate. The majority of the users of the Centre had been using it free of charge. The Office of Internal Oversight Services understands that action is under way to apply predetermined criteria for charging users.

29. Although not formalized at the time of the audit, various sources had suggested ways to make the ECA Centre more attractive to users. These included:

(a) Formulating a public education programme;

(b) Transferring commercial activities, such as a bank, travel agency and gift shop, to the facility;

(c) Promoting use of the facility's business centre to missions, non-governmental organizations and local companies needing access to telecommunications and computer equipment, for a fee;

(d) Creating a sales outlet for United Nations publications within the Centre complex.

30. *In their comments on the audit, both ESCAP and the Office of Legal Affairs pointed out that initiatives to widen commercial activities might jeopardize the privileges and immunities granted to the commissions under the respective host country agreements.* In addition to legal guidance, any proposed commercialization of the two centres also requires the Programme Planning, Budget and Accounts Division to take a policy decision on how properly to reflect any revenue deriving from commercial activities in the Organization's financial statements.

III. Market factors influencing usage

Economic and Social Commission for Asia and the Pacific

31. The tentative calendar of meetings of ESCAP for 1998-1999 showed that more than 50 per cent of its meetings were scheduled to take place outside Bangkok, indicating that even the substantive divisions and the other United Nations offices at Bangkok were not making optimal use of the Conference Centre. The review by the Office of Internal

Oversight Services identified several possible explanations for this situation:

(a) **More economic alternatives**. As a result of the economic downturn, local hotels were making very attractive offers to conference organizers and participants, such as free meeting rooms and discounted catering options. Three different United Nations offices at Bangkok informed the Office of Internal Oversight Services that using the Centre for every meeting or function was cost-prohibitive;

(b) **More attractive locations**. Frequently, non-governmental organizations, governmental agencies or Member States offer alternative facilities, sometimes organizing conferences and meetings in resort-type locations. The Economic and Social Commission for Asia and the Pacific does not wish to refuse such offers, especially since it has an obligation to satisfy donors which may also represent sources of extrabudgetary funding that is becoming increasingly scarce. There are also some advantages to holding meetings for technical cooperation projects in the recipient countries. Alternative locations might also be selected because they are closer and more convenient to the residence or workplace of the participants. *In its response, the ESCAP secretariat pointed out that the Ministry of Foreign Affairs of Thailand had recently opened a multi-million dollar new headquarters facility which is located approximately two kilometres from the ESCAP premises and which contains conference rooms and related facilities.* This development is expected to draw existing government-related functions away from the ESCAP Centre;

(c) **Poor local infrastructure**. The ESCAP Conference Centre is not located close to most of the large, quality hotels in Bangkok. In addition, it is not served by an efficient urban transport system and road traffic delays are frequent. Other venues closer to the city centre are more attractive to prospective clients;

(d) **Lack of adequate promotion**. There is no recent evidence to indicate that ESCAP has actively promoted the use of the Centre to other United Nations offices in Bangkok, non-governmental organizations, Governments of Member States in the region, the Thai Tourism Authority and local chambers of commerce. Furthermore, no additional resources or personnel were earmarked for the marketing and promotion of the Centre since its completion. *The ESCAP secretariat responded that it had recently made contact with companies in Thailand which are in the business of organizing meetings and is inviting them to visit the ESCAP premises for a tour of the facilities and a discussion on possible use of the Conference Centre in preference to hotel venues in the Bangkok area.*

32. The ESCAP facility has several competitive advantages that need to be leveraged. The cost of servicing meetings is relatively low compared with other United Nations offices, especially Headquarters and facilities based in Europe, owing to the local salary structure and a high reliance on lower-cost outsourced services. The facility itself is very modern, flexible and multifaceted. It is a prestigious, professional, high-quality venue, consistent with the dignity and standing of the Organization, close to both governmental facilities and several major Bangkok tourist attractions. In contrast with commercial conference facilities and hotels, the ESCAP facility has no rental or debt-servicing costs to cover. Finally, ESCAP is the lead United Nations organization in the Asian and Pacific region and, in the absence of a regional political forum, the only institution dealing with the region's economic and social issues. In this regard, the Conference Centre is the physical embodiment of the United Nations in Asia and the Pacific and could be promoted as such, consistent with the proposal by the Secretary-General to consolidate field presences under a designated United Nations House.

Economic Commission for Africa

33. The Economic Commission for Africa faces some, but not all, of the same obstacles facing ESCAP with respect to improving the rate of usage of its Centre. Factors limiting Addis Ababa as a choice conference location include its relative isolation and local infrastructural limitations. Complex negotiations with the host Government have also delayed the establishment of the Centre's technical capabilities, such as telephone lines and satellite links. In addition, the Office of Internal Oversight Services believes that the Africa Hall of ECA effectively competes with the Centre as a cheaper, albeit less modern, venue for meetings, and ultimately attracts some of the Centre's own potential clientele. Also, other United Nations agencies and the Organization of African Unity are able to use Africa Hall at no cost. *The ECA secretariat also indicated that the Organization of African Unity was currently building its own facility for conferences and meetings.*

34. At the time of the audit, the regional political instability and concurrent security risks for external users and meeting participants also limited the selection of the Addis Ababa Centre as a suitable conference site.

35. In October 1997, several key stakeholders, including the ECA management and representatives from other United Nations offices, performed an extensive analysis of the competitive advantages and weaknesses of the ECA Conference Centre. Based on this analysis, ECA engaged

a consultant who formulated a management and marketing proposal. The Officer-in-Charge of the Conference and General Services Division at ECA informed the Office of Internal Oversight Services that implementing the consultant's recommendations would be one of the main priorities of the newly recruited Chief of the Centre. As with ESCAP, however, the ability of ECA to market and promote its Centre depended on the availability of funds. To date, however, the Centre has not had a dedicated promotional budget. The Officer-in-Charge cited several informal arrangements which have helped to improve the promotion and usage of the Centre. For example, during the celebrations for the fortieth anniversary of ECA, bulk travel rate discounts and joint catering and local transportation arrangements were negotiated with the two main hotels at Addis Ababa and with Ethiopian Airlines. The Office of Internal Oversight Services commends these initiatives and has recommended that, to the extent possible, formal agreements be negotiated, in consultation with the Office of Legal Affairs, as appropriate.

United Nations system benchmark

36. The United Nations Office at Vienna appeared to be the most comparable conference centre within the common system. In 1997, Vienna hosted more than 2,400 meetings, compared with the approximately 230 meetings hosted by ESCAP in the same period. The main meeting rooms at the Vienna Centre were used for 66 per cent of the available time.

37. The Office of Internal Oversight Services acknowledges that the presence of two specialized agencies and several other factors favourably influence usage of the Vienna facility. Nevertheless, nearly 50 per cent of the usage involved offices or divisions of the United Nations Secretariat.

38. It appears, therefore, that United Nations users may be actively encouraged to patronize this facility. The presence of a quality catering facility, a philatelic outlet, a guided tour operation, a duty-free commissary shop and proximity to the city's mass-transit facility also add to the attractiveness of the Vienna location. Although not all of these features can be replicated at ECA and ESCAP, the Office of Internal Oversight Services believes that the existence of some of the amenities would assist in developing a strategy to improve usage. The Office also believes that measuring performance by creating key performance indicators would help the ECA and ESCAP Conference Service units to focus their attention on precise objectives. *Both commissions agreed to undertake such an exercise.*

IV. Low revenues and operational shortcomings

39. The Office of Internal Oversight Services acknowledges that the centres at ECA and ESCAP were not constructed as money-making ventures but rather to satisfy the conference and meeting needs of the commissions, their subsidiary committees and other regional United nations offices. To date, the financial performance of both centres has been poor.

40. In addition, there is currently no incentive for the commissions to improve the rate of usage of the centres or maximize revenues earned, since revenues are currently treated as miscellaneous income and remitted to Headquarters. As long as the activities of the centres are not recognized in the financial accounts of the Organization as revenue-producing activities, there will continue to be no incentive to increase revenue. At the same time, both facilities will become more of a financial burden to the Organization as deterioration and obsolescence make large-scale capital replacement projects necessary.

Economic and Social Commission for Asia and the Pacific

41. External user revenue of $209,333 for 1997, which was down nearly 25 per cent since the first year of operation, covered little more than one eighth of the operating costs of the ESCAP Centre, which amount to approximately $1.53 million, excluding charges for depreciation of its capital installations. Officials at ESCAP indicated that major equipment replacement costs and capital maintenance and improvement projects would exceed $2 million over the next five years.

Economic Commission for Africa

42. User revenues and cost recovery levels for the ECA Conference Centre were very low. This and an ineffective system for establishing receivables and recovering debts have resulted in an unimpressive financial performance to date.

43. For the ten-month period ending 31 October 1998, ECA earned $59,410 in revenue from external users of the Centre, compared with $32,000 for all of 1997. Booking records, which also included use of the Africa Hall complex, indicated that more than 120 events were held by external

users at the Conference Centre. Less than one third of the external users were, however, paying clients.

44. The 1998 allotment to ECA for Centre expenditures totalled $1,162,000. The Office of Internal Oversight Services questioned, however, whether this figure accurately reflected all capital installation and replacement expenditures.

Operational shortcomings

45. The Office of Internal Oversight Services made several observations concerning administrative and operational matters at both centres, relating to event pricing structure, catering and insurance, conference coordination and customer service. For the most part, the ESCAP and ECA managements have begun implementing the audit recommendations of the Office concerning these matters. Where issues or action remain outstanding, the recommendations have been included in section V below.

V. Conclusions and recommendations

46. The operations of the United Nations conference centres at Bangkok and Addis Ababa have reached a critical point. Both centres have been functioning with little strategic guidance or resources to support their further development or to encourage usage. Both are vastly underutilized and they are located in areas which face unfavourable economic and political conditions in the short to medium term.

47. Decisions to make the initial capital investment in the centres were not fully substantiated. Continued allocation of funds to operate and maintain the centres, at current usage rates, is a questionable use of scarce resources. On the other hand, it could be embarrassing for the Organization if usage continues to decline or if the facilities are not properly maintained. The Office of Internal Oversight Services believes that critical decisions concerning the ECA and ESCAP Centres need to be taken without further delay.

48. In this regard, the General Assembly is encouraging creativity and a departure from traditional approaches. By resolution 52/220 of 22 December 1997, the Assembly invited the Secretary-General to propose measures to improve the profitability of the commercial activities of the United Nations and, where appropriate, to develop new income-generating measures.

49. The Office of Internal Oversight Services believes that, above all, the centres should be used for large United Nations meetings. Appropriate non-United Nations events and other viable revenue-producing activities should be incorporated into their operations and an appropriate budget for promoting and marketing the centres should be established. While the main purpose of the centres should not be subjugated, a degree of commercialization is needed to allow each Centre to become an attractive prospect for any external service provider. This includes the ability to manage and promote the facilities creatively and aggressively and to use them for fund-raising activities, within parameters established by United Nations Headquarters. Particularly at ESCAP, the outsourcing of activities, including the day-to-day management of the operation, may be the most viable future option. Full commercialization and outsourcing of the ECA Centre are probably not feasible in the short term owing to the limited availability of professional services within the region.

50. Action should be taken within the framework of a comprehensive operating strategy for the centres. Making each Centre more attractive to the conveners of conferences will also involve finding ways to mitigate the impact of weaknesses in the regional infrastructure at both locations. Most important, strategies to increase the number of events cannot be devised without determining how the meetings and conferences would be serviced and supported.

51. *The two regional commissions generally responded positively to the recommendations contained in the audit report of the Office of Internal Oversight Services. The Office of Legal Affairs, however, expressed concern that General Assembly resolution 52/220 had been misinterpreted and that it could not be construed as endorsing large-scale commercialization.* The Office of Internal Oversight Services does not advocate a departure from the governing principle that commercial activities be limited to those that are consistent with the aims and activities of the Organization. The commissions, however, need more specific guidance in terms of which kinds of activities would be within acceptable legal parameters. The recommendations of the Office of Internal Oversight Services are set out below.

Recommendation 1. The Central Planning and Coordination Service of the Department of General Assembly Affairs and Conference Services, in conjunction with the executive secretaries of the two regional commissions, should formulate a medium-term plan for utilizing the ECA and ESCAP conference centres as the venues for certain major United Nations events and meetings. The plan should include an assessment of different

conference-servicing and funding mechanisms (recommendation No. AM/1998/14&15/001).*

In its comments on the original audit report, the Department for General Assembly Affairs and Conference Services stipulated that the above recommendation would be difficult to implement without further guidance from Member States. The Office of Internal Oversight Services believes that the Department, after consultations with ECA and ESCAP, should bring this matter to the attention of the General Assembly through the Committee on Conferences, in conjunction with the recent review of proposals to improve the utilization of the United Nations conference facility at Nairobi.

The ECA secretariat commented that its Conference Centre should be established as a formal United Nations conference-servicing location. The Office of Internal Oversight Services believes that this proposal may have merit but should only be considered after a proper analysis of the requisite costs and staffing requirements has been conducted.

Recommendation 2. The Department of Management should ensure that a realistic needs assessment is performed and provided to the General Assembly for its review prior to approving funds for future large-scale construction projects. Also, the necessary resources should be provided to sustain operations, based on the submission of a detailed cost plan and revenue projections (recommendation No. AM/1998/14&15/002).

The Department of Management did not comment on this recommendation.

Recommendation 3. The executive secretaries of ECA and ESCAP should take the lead in assessing proposals for improving the usage of the two centres and enhancing public activities. Adequate guidance should be obtained from United Nations Headquarters to determine the legal and operating parameters for establishing new activities (recommendation No. AM/1998/14&15/003).

The ESCAP secretariat supported this recommendation and stated that it was formulating another proposal to increase usage through enhanced public activities. The ECA secretariat stated that its Conference Centre needed a proper staffing structure and that funds were required for this purpose.

Recommendation 4. Once the operating modalities have been decided upon, the Office of Programme Planning, Budget and Accounts should determine how ECA and ESCAP are to record and report the income and expenditure of the operations of the centres and associated commercial activities in the financial accounts (recommendation No. AM/1998/14&15/005).

Both commissions pointed out that their ability to use income from commercial activities for improving the facilities and services of the centres would create an additional incentive to enhance usage and run operations efficiently. The Programme Planing, Budget and Accounts Division responded that instructions for the biennial preparation of the budget relating to miscellaneous income, which the Division sends to all sections, take into account such rules (Rules 107.3 and 107.4 of the Financial Rules of the United Nations).

52. Concerning the Conference Centre at Bangkok, the Office of Internal Oversight Services makes the recommendations set out below.

Recommendation 5. The secretariat of ESCAP should secure the services of an external consultant to perform the comprehensive cost-benefit and regional market analysis needed to develop proposals for improving the use and profile of its Centre. This effort should include an assessment of the regional competitive environment and projections of potential visitors, numbers of meetings, potential cultural and fund-raising events etc. The overriding criteria for the establishment of commercial activities should be consistency with the objectives of ESCAP and self-sustainability (recommendation No. AM/1998/14&15/009).

The Programme Planing, Budget and Accounts Division welcomes the recommendation to secure the services of an external consultant to perform a comprehensive cost-benefit and regional market analysis. This analysis should take into account the efforts being undertaken to develop a cost-accounting system for conference services.

Recommendation 6. With the collaboration of the Office of Legal Affairs and the Commercial Activities Service, the secretariat of ESCAP should determine the necessary legal protection, appropriate revenue-sharing arrangements and oversight that the Organization will need to successfully implement a service contract with an external service provider (recommendation No. AM/1998/14&15/011).

The Programme Planning, Budget and Accounts Division cautions that outsourcing is a politically sensitive

* The reference number is taken from the original audit report. Where corrective action has been taken, the recommendation is not included in the present report.

issue that requires careful assessment of related costs and benefits before proceeding.

Recommendation 7. The Executive Secretary of ESCAP should formulate a promotional and marketing plan aimed at improving usage levels and increasing revenue from external users. Adequate staff and support resources should be dedicated to this task, including temporary redeployment from existing funds if necessary. Through additional outreach initiatives, the Executive Secretary should further promote utilization of the Centre to divisional directors, the heads of other United Nations Offices at Bangkok, governmental agencies, Member States, local chambers of commerce and tourism authorities (recommendation No. AM/1998/14&15/012).

Recommendation 8. An operating proposal should be submitted for the consideration of the General Assembly, based on the results of the analysis described in recommendations 5, 6 and 7 above, including the budget implications of capital costs, promotional and marketing budgets and forecasted revenues (recommendation No. AM/1998/14&15/010).

With the exception of total outsourcing, which it believes is not feasible or desirable in the political area in which it has to work, ESCAP supports recommendations 5 to 8 above and has explored various options, such as expanding its souvenir sales outlet and contracting out certain activities such as the bookshop operations. The ESCAP secretariat, however, reiterates its position that the performance of a regional market analysis and strategy is not feasible in the absence of formal policy guidelines, legal parameters and development strategies. As discussed in recommendation 3 above, the Office of Internal Oversight Services believes that the executive secretaries should initiate the effort to establish appropriate operating guidelines, in consultation with United Nations Headquarters.

53. Regarding the Centre at Addis Ababa, the Office of Internal Oversight Services makes the recommendations set out below.

Recommendation 9. The ECA secretariat should finalize the operating strategy, along with the proposed marketing and operational cost plan, for budgetary approval (recommendation No. AM/1998/14&15/013).

Recommendation 10. The ECA secretariat should establish and apply clear criteria as to whether a potential client is to be charged a full or discounted rate, or allowed to use the Centre free of charge (recommendation No. AM/1998/14&15/014).

The Executive Secretary of ECA agreed to implement recommendation 9 by the end of 1999 and informed the Office of Internal Oversight Services that some initiatives had already been taken, including a decision to staff the Business Centre (within the Conference facility) on a full-time basis, thereby enhancing the professionalism and revenue-earning potential of the facility. The ECA secretariat is also in the process of creating the Technological Centre for Africa within the facility. The Technological Centre is scheduled to be in operation in October 1999. The Office of Legal Affairs expressed concern about the appropriateness of this activity in view of the current policies on the use of United Nations premises. The Office of Internal Oversight Services commends the initiative of ECA in this regard, and believes that the provision of this service is consistent with its overall mandate to improve the economic development of the region. The legal validity of this activity should, however, be fully clarified.

Concerning recommendation 10, the ECA secretariat has started to apply consistent policies for charging external parties for the use of the Centre.

(Signed) Karl Th. **Paschke**
Under-Secretary-General for
Internal Oversight Services